ANNUAL REPORT

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1986-1987)

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Established by an Act of the Provincial Legislature in June, 1969, the Provincial Lending Authority provides capital and operating credit to the primary producers of the Province, particularly those of smaller size, which may reasonably be expected to prove successful but which are unable to obtain financing elsewhere on reasonable terms and conditions.

PRINCE EDWARD ISLAND LENDING AUTHORITY

Post Office Box 1420

Confederation Court Office Tower

134 Kent Street

Charlottetown, P.E.I.

C1A 7N1

prince edward island
lending authority

A CROWN CORPORATION
EST. 1969

TEL: (902) 892-4247 - KENT PLACE - 134 KENT ST., P.O. BOX 1420, CHARLOTTETOWN, P.E.I., CANADA, C1A-7N1

LETTER OF TRANSMITTAL

July 14, 1987

The Honourable Gilbert R. Clements
Minister Responsible for the Lending Authority
Walter R. Shaw Building
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Honourable Sir:

It is our pleasure to submit as required by the Prince Edward Island Lending Authority Act the Annual Report for the Lending Authority for the fiscal year ended March 31, 1987.

Respectively submitted,

William B. Hatton
Chairman

CORPORATE DIRECTORY
AS OF MARCH 31, 1987

EXECUTIVE

William B. Hatton
Chairman of the Board
Agriculture — Morell R.R. #2

Robert H. Minard
Vice-Chairman
Member-At-Large, Winsloe R.R. #2

*William M. Jay
Secretary-Treasurer and
General Manager

MEMBERS OF THE BOARD

Clayton Bulpitt
Roseneath
Agriculture

Daniel MacLean
Tyne Valley
Agriculture

Wayne Harris
Murry Harbour
Fisheries

Everett MacFarlane
Charlottetown
Tourism

Ms. Peggy Coady
Charlottetown
Small Business

H.L. Palmer
General Manager
Land Development Corporation

Douglas Johnson
Deputy Minister
Department of Fisheries

Ms. Dale Dewar
Deputy Minister
Department of Agriculture

W.P. MacDougall, C.A.
Deputy Minister
Department of Finance

*Non Voting

CORPORATE PROFILE

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1986-1987)

The Prince Edward Island Lending Authority is empowered to make loans to approved applicants in the following sectors:

AGRICULTURE

- to provide Operating Credit to farmers required to meet annual cropping expenses such as payment for seed, fertilizer, spray materials, fuels, repairs to machinery, labour, etc. This type of credit is repayable in full upon sale of the crop.
- to provide funds for the purchase of livestock as follows:

  for beef cows — loans may be obtained for five years repayable in annual instalments; the first payment being interest only, interest plus principal for the remainder of the term.

  for feeder cattle — the full amount of the loan obtained will be due when the cattle are sold, but in no case longer than a period of eighteen months;

  for dairy cows — loans may be obtained for a period up to five years and be repayable in monthly or annual instalments;

  for breeding ewes — loans may be obtained for a four year period repayable in annual instalments;

  for sows — may be obtained for a three year period repayabe in semi-annual or annual instalments;

  for feeder hogs — the full amount of the loan will be due when the hogs are marketed.
- to provide Capital Loans for the purchase of farm lands, for recapitalization of debt, and for farm equipment, storage facilities, erection and/or repairs to barns, land improvements, etc. Maximum term up to 30 years.

FISHERIES

- to provide Operating Credit to assist seasonal preparation costs prior to the start of the fishing season. These advances are repayable during or at the end of the fishing season.
- to provide Capital Loans for the purchase of vessels, engines, and related equipment, etc. Maximum term on new vessels is fifteen years.

TOURISM

- to provide Operating Credit to assist in seasonal preparation costs prior to the start of the tourist season. These advances are repayable in full during or at the end of the tourist season.
- to provide Capital Loans for the establishment of and/or expansion of tourist facilities, or for the acquisition of existing facilities and for consolidation of existing debt. Maximum term up to 30 years.

SMALL BUSINESS

- to provide Capital Loans to Small Business for such purposes as debt consolidation, expansion, refurbishing, purchase of fixed assets, etc. Maximum loan limit $350,000. Loans extended under this sector must be secured by a first real property mortgage, or a first fixed charge debenture. Application fee of $150.00 which is non refundable is applicable.
- for the purpose of this loan program small business is defined as a person, partnership or corporation having not more than 100 employees and annual gross sales of not more than 5 million in the preceeding fiscal year.
- applicants must be based in the Province and in the case of corporations incorporated under the Companies Act of Prince Edward Island.

EXCLUDED

- non resident persons or partnerships, companies not incorporated in the Province, franchised owned operations, licensees, apartment rental operators, manufacturers and processors.

INTEREST RATES

- interest rates on Capital Loans and Operating Credit will be determined from time to time and will be based on the cost of money to the Lending Authority.

REVIEW

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1986-1987)

The Lending Authority, which was established in 1969 as a Crown Corporation and which commenced operation in April, 1970, was designed to assist farmers, fishermen, tourist operators and small business persons in the province, particularly those operating on the small to medium scale to obtain financing, on reasonable terms and conditions which would not normally be available from other sources.

It is generally agreed that the economic well-being of the province depends, to a large extent, on the continued growth of our primary industries. In assisting primary producers and small business persons the Lending Authority is fulfilling an important role and is one of the economic vehicles that assist in this much needed and continued growth.

The Lending Authority's activity, inter-alia, includes administration of the loan portfolios of the lending agencies of the Government of Prince Edward Island existing prior to April, 1970.

The Authority, now in its eighteenth year of operation, has been accepted by the persons it was established to assist and by the business community as a whole, and it is evident that it will continue to play an ever increasing role in the future economic development of the province through its lending programs.

ANNUAL REPORT OF THE GENERAL MANAGER

It is indeed a privilege for me to present this, my 18th annual report as General Manager. The past fiscal year saw substantial increases in loans and credit approved in all divisions with the exception of the Small Business Division where, the demand for our services seem to have subsided.

A complete statistical report on applications received and the disposition of those applications will be found on page 9 of this annual report. In general, the Authority received and evaluated 380 applications in all divisions for a total value of $31,860,418., this compares to the previous fiscal year when 371 applications for $31,866,000., were received. During the past year we witnessed a substantial recovery from the economic difficulties that had been experienced particularly in the agricultural industry in the past several years. During this fiscal year the Authority received 168 applications from farmers for term loans and operating credit and approved 121 of these applications for a total of $11,814,102. as compared to the previous fiscal year when 104 applications were approved for a total of $7,614.575. As in previous years we will expand on our report by Divisions as follows:

AGRICULTURAL DIVISION

As noted in my general comments, there has been a substantial increase in loans and credit approved in this division, the total being $4,200,000. higher than the previous fiscal year.

There is every indication that the agricultural industry is recovering from the economic difficulties which it had been experiencing during the past several years, more particularly in 1985 when the price of potatoes was considerable less than the cost of production. The 1986 potato crop has been selling at record high prices and the Department of Finance in their 13th Annual Statistic Review for 1986 indicate that farm cash receipts in 1986 reached a new historical high of $197,000,000. up from $176,000,000. in 1985. The previous record high of $196,000,000. was set in 1984. Potatoes accounted for $14,000,000. of the $21,000,000. increase in 1986, while beef sales accounted for another $7,000,000. Realized net farm income is expected to increase substantially in 1986 to reach $57,000,000. up from $35,000,000. in 1985. Further, the dairy sector realized an increase in output of 5.6% as the volume of milk and cream produced totalled 99,927 kilolitres in 1986. Farm cash receipts for dairy products were $35.8 Million in 1986 including $5.4 Million in dairy supplementary payments.

This very welcome up-swing in farm income is indicated in payments received on loans and credit during 1986 and is most apparent in payments received on operating credit where a total of $7,100,000. was repaid in the fiscal year.

We are pleased to note that no foreclosures were executed during the fiscal year in this Division.

During the year we saw the implementation of the Federal Farm Debt Review Boards established under the Farm Debt Review Act, (Canada) to assist farmers in financial difficulty to deal with their creditors. Despite reports to the contrary the Lending Authority is cooperating with the Farm Debt Review Boards and in fact, amongst their first cases were referrals from the Authority. It must be clearly understood however, that the Authority reserves the right to consider all proposals received from the Debt Review Board and, to either accept such proposals and/or decline them on the basis of what it feels is in the best interest of the Authority.

Despite media reports to the contrary the Lending Authority does not consider that a "crisis" situation exists in agricultural finance in this province. In fact, at the present time the Lending Authority's portfolio of loans in agriculture can be considered to be in good standing, that is not to say, that there are no loans in default, however, the number of default loans are relatively small and, we do not at this time foresee any substantial number of farm foreclosures. As already noted, the past fiscal year was extremely busy in this division and we project, that the Lending Authority will receive an ever increasing number of new clients as conventional lenders become more discriminative in their evaluation of loan applications in the agricultural sector.

FISHERIES DIVISION

Our fisheries division shows an increase in the amount of loans and credit extended with approximately $3,485,438. being disbursed to 92 fishermen. The loans approved included loans for the construction and/or purchase of 36 new in-shore/near shore fishing vessels.

Our fisheries loan portfolio is in excellent standing, with no vessels having been arrested or losses incurred during the year. In our view, the fishing industry is stable with our fishermen receiving good prices for their catch and, this certainly augurs well for the future of the fishing industry and, the fishermen who make up this important sector of our economy.

TOURISM DIVISION

Loans and credit extended in this division total $5,017,400. up from the previous year's total of $4,460,000. A total of 55 tourist operators took advantage of the Authority's programs during the past fiscal year as compared to only 37 during the previous year. There were no foreclosures recorded in this division during the fiscal year and, the portfolio is in excellent standing with only 6 loans in arrears of payments as at the end of the fiscal year.

SMALL BUSINESS DIVISION

As indicated in my general comments the demand in this division has subsided and this year 25 applications were received with 16 being approved for $1,574,400. This program of term loans was commenced in 1983 at a time when small business persons were having difficulty with high rates of interest and low sales. During the past year we were obliged to place a restaurant/lounge operation into receivership and after the disposition of the assets by the Receiver/Manager, Coopers and Lybrand we recorded a loss of $77,703. as noted in our report on loans written-off. We were also obligated due to a receivership initiated by a Chartered Bank to take possession of a substantial land base of a potato producer/dealer at O'Leary. Subsequently, the land was sold to five different farmers in the area by tender and remains in production. The loss was minimal in relation to the loan balance.

TO CONCLUDE OUR REPORT, during the past year despite an ever increasing loan portfolio we were able to maintain our operations within budget. It should be noted that from inception the Authority has approved 5,534 loans and credit totalling $182,329,000., applying the normal economic multipler effect to this very large sum would strongly indicate that the Lending Authority has been a major contributor to the economic well-being of this province over the past 18 years and, we are sure it will continue to do so in the years to come. Losses on loans during the past year totalled $136,351. our overall losses on loans and credit extended since the inception of the Authority

remains at 1.0%. During the year Loan Officer, Brian Gallant was seconded to the staff of Treasury Board and to date his position has not been filled. There were no other staff changes during the year. During the year, the term of office of several board members expired, they were Francis Gauthier the fisheries representative; St. Clair Duffy and Peter MacAulay who represented agriculture. These persons were replaced on the Board by Messrs. Wayne Harris of Murray Harbour representing fisheries, Clayton Bulpitt of Roseneath and Daniel MacLean of Tyne Valley representing agriculture. Also appointed to the Board during the fiscal year was Ms. Peggy Coady representing the Small Business community, she replaced the retiring member Allan C. McLeod.

In conclusion, I am pleased to advise that management and staff of the Authority continue to enjoy excellent rapport with the Chairman and members of the Board and with the Minister responsible, the Hon. Gilbert R. Clements, and also with the various departments and agencies both of the Federal and Provincial Governments and with the business community at large with whom it must co-exist.

Respectively submitted,

William M. Jay, M.C.I.
General Manager

STATISTICAL INFORMATION
APRIL 1, 1986 — MARCH 31, 1987
(with comparative figures for fiscal 1985/86)

	1986/87	1985/86
Total number of applications received		
Agriculture	168	171
Fisheries	111	112
Tourism	76	57
Small Business	25	31
	380	371
Total dollar value of applications received		
Agriculture	17,092,977	15,381,504
Fisheries	5,390,216	4,412,123
Tourism	6,994,200	8,368,975
Small Business	2,383,025	3,703,400
	31,860,418	31,866,002

Disposition of Applications
Loan and Credit Offers Approved:

AGRICULTURE				
Term Loans	73 for	3,564,990	63 for	2,546,290
Operating credit	48 for	8,249,112	41 for	5,068,285
TOTAL	121	11,814,102	104	7,614,575
FISHERIES				
Term Loans	85 for	1,861,188	85 for	1,462,534
Operating Credit	7 for	1,624,250	7 for	1,704,132
TOTAL	92	3,485,438	92	3,166,666
TOURISM				
Term Loans	48 for	4,822,400	34 for	4,345,150
Operating Credit	7 for	195,000	3 for	112,500
TOTAL	55	5,017,400	37	4,457,650
SMALL BUSINESS				
Term Loans	16 for	1,574,400	23 for	2,432,250
TOTAL	16 for	1,574,400	23 for	2,432,250
TOTAL APPROVED	284	21,891,340	256	17,671,141
Applications withdrawn or declined	96 for	9,969,078	115 for	14,194,861
TOTAL	380	31,860,418	371	31,866,002

STATEMENT OF INTEREST EARNED — ALL SECTORS

FOR THE PERIOD APRIL 1, 1986 — MARCH 31, 1987

Agricultural Loans	2,147,185
Fisheries Loans	471,334
Tourist Loans	1,623,481
Small Business Loans	995,037
Working Capital Credit	548,691
	5,785,728

STATEMENT OF LOAN PORTFOLIOS ASSUMED
FOR THE PERIOD APRIL 1, 1986 — MARCH 31, 1987

Farm Establishment Board	
Balance March 31, 1986	559,037
Payments Received April 1, 1986-March 31, 1987	112,555
Balance March 31, 1987	446,482
Industrial Loan Board and PEI Industrial Corporation	
Balance March 31, 1986	2,000
Payments Received April 1, 1986-March 31, 1987	2,000
Balance March 31, 1987	0

SCHEDULE OF LOANS APPROVED
APRIL 15/70 — MARCH 31/87

YEAR ENDING	Agriculture Capital	Fisheries Capital	Tourism Capital	Small Business Capital	Working Capital	TOTAL
March 31/71	13	67	31	2	*156	269
	276,539	145,502	374,960	3,379	1,642,800	2,443,180
March 31/72	13	63	24	12	*131	243
	274,700	144,099	220,548	865,500	1,483,228	2,988,075
March 31/73	47	46	35	3	95	226
	669,564	185,239	901,927	51,145	1,272,435	3,080,310
March 31/74	46	94	20	4	87	251
	463,854	465,092	339,560	606,639	1,591,781	3,466,926
March 31/75	107	107	21	12	245	492
	906,246	365,051	529,189	278,950	2,554,176	4,633,612
March 31/76	44	54	14	12	135	259
	510,255	340,481	375,883	226,469	3,053,306	4,506,394
March 31/77	90	75	20	11	127	323
	905,663	295,978	954,247	619,107	3,782,268	6,557,263
March 31/78	107	69	15	10	93	294
	1,571,843	374,230	564,145	679,030	3,046,371	6,235,619
March 31/79	124	84	19	11	141	379
	1,655,196	910,515	1,119,950	830,067	4,875,293	9,391,021
March 31/80	176	103	27	16	104	426
	4,128,794	1,243,816	1,250,735	545,690	4,873,681	12,042,716
March 31/81	170	76	22	15	111	394
	5,215,462	856,635	1,701,220	900,296	6,691,154	15,364,767
March 31/82	133	102	17	11	71	334
	3,831,035	1,489,457	719,872	734,312	4,687,811	11,462,487
March 31/83	142	128	44	5	90	409
	5,812,452	1,834,025	2,366,520	203,375	7,593,698	17,810,070
March 31/84	145	98	47	46	104	440
	7,688,410	1,485,077	4,390,855	5,956,250	7,768,500	27,289,092
March 31/85	61	78	23	26	67	255
	2,348,829	1,735,672	3,331,050	2,495,845	5,583,535	15,494,932
March 31/86	63	85	34	22	52	256
	2,546,290	1,462,534	4,345,150	2,412,250	6,904,917	17,671,141
March 31/87	73	85	48	16	62	284
	3,564,990	1,861,188	4,822,400	1,574,400	10,068,362	21,891,340
TOTAL	1,554	1,414	461	234	1,871	5,534
	42,370,122	15,194,591	28,308,211	18,982,704	77,473,316	182,328,944

STATEMENT OF LOAN FLOW

FOR THE PERIOD APRIL 1, 1986 — MARCH 31, 1987

AGRICULTURE CAPITAL LOANS		
Balance March 31, 1986		19,294,400
Payments Received April1/86-March 31/87	4,170,134	
Interest and Disbursements	6,550,607	
Balance March 31, 1987		21,674,873
FISHERIES CAPITAL LOANS		
Balance March 31, 1986		3,101,107
Payments Received April 1/86-March 31/87	1,257,738	
Interest and Disbursements	1,823,151	
Balance March 31, 1987		3,666,520
TOURIST CAPITAL LOANS		
Balance March 31, 1986		10,720,694
Payments Received April 1/86-March 31/87	2,992,440	
Interest and Disbursements	5,776,333	
Balance March 31, 1987		13,504,587
SMALL BUSINESS LOANS		
Balance March 31, 1986		8,234,254
Payments Received April 1/86-March 31/87	2,260,045	
Interest and Disbursements	2,364,603	
Balance March 31, 1987		8,338,812
WORKING CAPITAL CREDIT — ALL SECTORS		
Balance March 31, 1986		4,010,749
Payments Received April 1/86-March 31/87	7,095,022	
Interest and Disbursements	6,475,362	
Balance March 31, 1987		3,391,089

STATEMENT OF LOANS WRITTEN-OFF AND RECOVERIES

FOR THE PERIOD ENDING MARCH 31, 1987

LOANS WRITTEN-OFF	
Joseph Duval, Alberton	$ 62
Justin MacKinnon, Souris	30
Roper Foods Ltd., Sherwood	77,703
Gaudette Produce Ltd., Tignish	8,029
Craig MacKenzie, Fortune	17,594
Douglas Fraser, Souris	8,227
C.F. Willis Produce Ltd., O'Leary	24,706
	$136,351
RECOVERIES	
Joseph Duval, Alberton	$ 500

LOANS CLASSIFIED BY SECTOR AND RANGE

YEAR ENDING MARCH 31, 1987

RANGE	AGRICULTURE	FISHERIES	TOURISM	SMALL BUSINESS	TOTAL
0- 9,999	17	41	6	1	65
10,000- 19,999	18	17	4	-	39
20,000- 29,999	19	8	6	3	36
30,000- 39,000	6	9	3	2	20
40,000- 49,999	7	7	5	-	19
50,000- 59,999	4	3	3	-	10
60,000- 69,999	4	1	2	1	8
70,000- 79,999	2	1	1	1	5
80,000- 89,999	5	-	5	-	10
90,000- 99,999	6	-	5	3	14
100,000-199,999	19	3	12	3	37
200,000-299,999	5	-	2	2	9
300,000-399,999	2	-	-	-	2
400,000-499,999	3	-	1	-	4
500,000-599,999	2	-	-	-	2
OVER 600,000	2	2	-	-	4
	121	92	55	16	284

COMPARISON OF LOANS APPROVED TO LOANS WRITTEN-OFF

APRIL 15, 1980 — MARCH 31, 1987

Year Ending	Total Loans	Write-Offs	Percent of Total Loans	Recovery
March 31, 1971	2,443,180	—	—	—
March 31, 1972	2,988,075	172,698	5.78	—
March 31, 1973	3,080,310	150,000	4.87	16,928
March 31, 1974	3,466,926	150,425	4.34	18,477
March 31, 1975	4,633,612	56,719	1.22	23,077
March 31, 1976	4,506,394	61,693	1.36	8,801
March 31, 1977	6,557,263	54,125	0.83	38,167
March 31, 1978	6,235,619	50,000	0.08	18,796
March 31, 1979	9,391,021	22,671	0.24	38,048
March 31, 1980	12,042,716	50,000	0.41	13,198
March 31, 1981	15,364,767	18,667	0.12	37,078
March 31, 1982	11,462,487	—	—	2,692
March 31, 1983	17,810,070	14,871	0.08	15,846
March 31, 1984	27,289,092	134,418	0.49	5,363
March 31, 1985	15,494,931	234,593	1.50	22,408
March 31, 1986	17,671,141	395,958	2.24	1,242
March 31, 1987	21,891,340	136,351	0.06	500
TOTAL	182,328,944	1,703,189	1.0	260,621

STAFF OF THE PRINCE EDWARD ISLAND LENDING AUTHORITY

AS OF MARCH 31, 1987

ADMINISTRATION

William M. Jay, M.C.I., C.C.E.	—	General Manager
Eric G. Wood	—	Administration Officer

AGRICULTURAL DIVISION

Gerald F. Gahan, M.C.I.	—	Manager
Brian J. Gallant, B.B.A., M.C.I.	—	Loans Officer II
Anne E. Bonnell, B.B.A., M.C.I.	—	Loans Officer II
George G. MacCabe, M.C.I.	—	Loans Officer II
Michael F. Bradley, Ag. Tech.	—	Field Officer/Appraisor
J. Kevin Curley, B. Comm., M.C.I.	—	Field Officer/Appraisor
Donald C. Aitken	—	Field Officer/Appraisor

FISHERIES DIVISION

D.W. (Dan) Smith, M.C.I.	—	Manager
J. Kenneth MacDonald, M.C.I.	—	Field Officer/Appraisor and Vessel Inspector

TOURISM AND SMALL BUSINESS

Eric R. MacNeill, M.C.I.	—	Manager
Gerald B. Soy, C.C.E.	—	Field Officer/Appraisor

SUPPORT STAFF

Ms. Marlene Peters	—	Secretary to the General Manager
Mrs. Eileen Norton	—	Accounting Technician I
Mrs. Elizabeth Boswall	—	Secretary
Mrs. Eleanor Giraud	—	Cashier/Secretary
Mrs. Elva Myers	—	Secretary/Receptionist

CONSULTANTS TO MANAGEMENT

Consulting Engineer	—	Mr. Norman F. Stewart P. Eng., Be. (Civil), M.E.I.C.

AUDITORS

Coopers & Lybrand, Chartered Accountants, Charlottetown, P.E.I.

April 28, 1987

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have examined the balance sheet of the Prince Edward Island Lending Authority as at March 31, 1987 and the statements of liability — Province of Prince Edward Island, interest income and expenses and operating funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Lending Authority as at March 31, 1987 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

PRINCE EDWARD ISLAND LENDING AUTHORITY

BALANCE SHEET AS AT MARCH 31, 1987

ASSETS

	1987 $	1986 $
CURRENT ASSETS		
Cash	152,319	804,675
Short-term loans plus interest and miscellaneous items (Schedule A) (note 4)	2,148,312	2,752,480
Recoverable expenditures from Department of Finance	547,770	460,517
Properties in inventory	55,369	190,262
	2,903,770	4,207,934
MORTGAGE LOANS PLUS INTEREST (Schedule B)	47,223,480	41,508,420
	50,127,250	45,716,354

LIABILITIES

CURRENT LIABILITIES		
Bank advances (note 4)	200,000	—
Sundry liabilities (note 2)	6,500	4,006
	206,500	4,006
LIABILITY TO PROVINCE OF PRINCE EDWARD ISLAND (note 3)	49,920,750	45,712,348
	50,127,250	45,716,354

SIGNED ON BEHALF OF THE BOARD

Chairman

Secretary-Treasurer

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF LIABILITY — PROVINCE OF PRINCE EDWARD ISLAND

AS AT MARCH 31, 1987

	1987 $	1986 $
BALANCE — BEGINNING OF YEAR	45,712,348	41,497,966
Add:		
Advances from Province	8,419,796	8,331,946
Interest on advances	5,861,740	5,478,019
Debts collected that were written off	—	1,242
	59,993,884	55,309,173
Deduct:		
Payments made to Province	9,673,453	7,046,401
Excess of interest expense over interest income	235,139	27,591
Increase in provision for possible future losses on loans	164,542	487,833
Special provision for future losses on loans (note 5)	—	2,035,000
	10,073,134	9,596,825
BALANCE — END OF YEAR	49,920,750	45,712,348

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF INTEREST INCOME AND EXPENSES

FOR THE YEAR ENDED MARCH 31, 1987

	1987 $	1986 $
INTEREST INCOME	5,808,169	5,661,649
INTEREST EXPENSE		
Bank	181,568	211,221
Province of P.E.I.	5,861,740	5,478,019
	6,043,308	5,689,240
EXCESS INTEREST EXPENSE FOR THE YEAR (note 6)	235,139	27,591

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF OPERATING FUNDS

FOR THE YEAR ENDED MARCH 31, 1987

	Budget (Note 5) Appropriation 1987 $	Actual 1987 $	Actual 1986 $
OPERATING GRANT — PROVINCE OF PRINCE EDWARD ISLAND	819,200	801,977	804,062
OPERATING EXPENSES			
Salaries and wage levies	620,200	611,734	604,113
Rent — Office and office equipment	99,754	91,758	98,551
— Automobiles	15,300	15,352	13,971
Travel and field call expenses	13,200	10,820	13,487
Telephone	18,402	15,910	19,767
Professional fees	8,800	7,400	8,800
Directors fees and expenses	14,000	18,145	14,705
Office supplies	11,744	11,677	11,744
Insurance	500	550	498
Legal and collection costs	5,400	10,183	4,864
Repairs and maintenance	1,200	372	1,053
Furniture and fixtures	1,000	1,000	723
Postage	4,700	3,984	5,867
Advertising	800	320	969
General expenses	2,600	2,294	3,239
Loan costs	1,600	478	1,711
	819,200	801,977	804,062
EXCESS OPERATING GRANT FOR THE YEAR	—	—	—

PRINCE EDWARD ISLAND LENDING AUTHORITY

SCHEDULES OF SHORT-TERM LOANS AND MORTGAGE LOANS PLUS INTEREST

AS AT MARCH 31, 1987

	Agriculture $	Fisheries $	Tourist $	Small Business $	Total 1987 $	Total 1986 $
SCHEDULE A — SHORT-TERM LOANS						
Principal balances					3,391,089	4,010,749
Provision for future losses					1,242,777	1,258,269
					2,148,312	2,752,480
SCHEDULE B — MORTGAGE LOANS						
Mortgage loans assumed by Lending Authority —						
Principal and interest balances	446,482	—	—	—	446,482	561,037
Accrued interest	12,326	—	—	—	12,326	14,962
	458,808	—	—	—	458,808	575,999
Provision for future losses	11,470	—	—	—	11,470	14,400
	447,338	—	—	—	447,338	561,599
Mortgage loans transacted by Lending Authority —						
Principal balances and interest due	21,674,873	3,666,520	13,504,587	8,338,812	47,184,792	41,350,455
Accrued interest	542,901	281,346	698,848	64,770	1,587,865	1,545,772
	22,217,774	3,947,866	14,203,435	8,403,582	48,772,657	42,896,227
Provision for future losses	1,232,643	98,697	355,085	310,090	1,996,515	1,949,406
	20,985,131	3,849,169	13,848,350	8,093,492	46,776,142	40,946,821
	21,432,469	3,849,169	13,848,350	8,093,492	47,223,480	41,508,420

PRINCE EDWARD ISLAND LENDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1987

1. ACCOUNTING POLICIES

Asset valuation

(i) Loans are stated at cost less a provision for future losses based on the loss experience of prior years and local economic conditions.

The corporation has been using a provision calculated at 2.5% on the year end balances of the loans.

The corporation has a policy to give consideration to possible losses on loans which might arise as a result of changed economic conditions and which might result in losses which would materially differ from those of the past.

(ii) Fixed assets are expensed in the accounts of the Authority at the time they are acquired.

Interest income

Effective April 1, 1986, the corporation adopted the policy of segregating doubtful loans into a non-current account. Interest on these loans is calculated as a memorandum only and is not added to the loan balance or to interest income.

2. SUNDRY LIABILITIES

	1987 $	1986 $
These consist of the following:		
Funds held in trust	6,500	—
Subsidies received direct from the Government of Canada on behalf of inshore fishermen	—	4,006
	6,500	4,006

3. LIABILITY — PROVINCE OF PRINCE EDWARD ISLAND

The liability to the Province is secured by debentures issued by the Authority to the province at varying interest rates and redemption periods. A listing of these debentures outstanding at March 31, 1987 is provided on the following page. Any remaining balance of the liability is secured by a promissory note reissued monthly.

PRINCE EDWARD ISLAND LENDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1987

3. LIABILITY — PROVINCE OF PRINCE EDWARD ISLAND (continued)

	1987		1986	
%	Debenture Amount $	Term Remaining	Debenture Amount $	Term Remaining
11.75	9,587,313	2 years	9,948,247	3 years
12.25	7,362,614	3 years	7,592,859	4 years
16.75	5,929,929	15 years	6,022,466	16 years
13.25	4,786,766	9 years	5,058,250	10 years
14.50	3,278,901	1 year	3,399,900	2 years
12.75	2,841,866	8 years	3,041,409	9 years
10.38	772,200	10 years	815,316	11 years
10.25	744,048	12 years	775,136	13 years
10.25	593,629	11 years	622,295	12 years
10.50	593,892	12 years	618,280	13 years
10.00	435,867	11 years	457,250	12 years
11.00	293,031	12 years	304,655	13 years
10.00	229,653	6 years	256,715	7 years
10.25	123,761	7 years	135,504	8 years
10.38	103,142	5 years	118,336	6 years
10.25	78,891	2 years	112,922	3 years
11.00	94,639	12 years	98,393	13 years
10.25	70,138	6 years	78,329	7 years
11.00	50,059	2 years	71,432	3 years
10.50	40,936	2 years	58,538	3 years
10.50	—	—	53,928	1 year
10.00	25,560	1 year	48,803	2 years
11.00	32,283	7 years	35,256	8 years
10.25	17,438	1 year	33,247	2 years
11.00	18,505	2 years	26,403	3 years
10.50	4,013	7 years	4,389	8 years
10.00	7,076,968	4 years	7,306,946	5 years
10.75	8,419,796	5 years	—	—
Total of debentures	53,605,838		47,095,204	
Accounting adjustment for provision for losses on loans, FEB loans not included and other sundry items	(3,685,088)		(1,382,856)	
	49,920,750		45,712,348	

The aggregate principal payment made on the debentures on March 31, 1987 was $1,909,162.

4. BANK ADVANCES

Bank advances are secured by a demand debenture on all working capital loans of the corporation.

5. SPECIAL PROVISION FOR FUTURE LOSS

The corporation recorded a special provision of $2,035,000 during the previous fiscal year to allow for possible losses which might arise as a result of financial problems encountered by the agriculture sector.

6. EXCESS INTEREST EXPENSE

The excess interest expense for the year was due in part to a reduction in the interest rate charge on those agriculture loans which carried a rate in excess of 14% for 5 years, 15% for 10 years, and 15 1/2% for 20 years. The rate reduction decreased interest income without a corresponding decrease in interest expense.

The other factor contributing to the excess interest expense was the change in accounting policy, as described in note 1.

7. BUDGET APPROPRIATION

The budget amounts were not audited.